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SUBJECT: Progress Against Smuggling in Subic Freeport

Ref: Manila 3387

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Summary  
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11. (SBU) A visit by about 40 representatives of business chambers, associations, companies, and foreign embassies spurred Subic Freeport authorities to announce aggressive action on the problem of vehicle and fuel smuggling (reftel) during meetings on November 8. The anti-smuggling measures included a six-month ban on imports of second-hand vehicles into the Freeport and suspension of two fuel importers. Separately, the Philippine Supreme Court upheld its decision to prohibit the sale of imported second-hand vehicles in the Philippines. U.S. companies characterized the events as "extremely significant" in the fight against smuggling and their own lobbying efforts as "succeeding beyond expectations." However, they cautioned that further vigilance and advocacy will be important to ensure a lasting, nationwide anti-smuggling campaign in the Philippines. End Summary.

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Fruitful Visit to Subic Freeport  
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12. (U) On November 8, Emboffs reinforced a group of about 40 representatives from 18 domestic and foreign chambers of commerce, companies, and embassies in a dialogue with officials from the Subic Bay Metropolitan Authority (SBMA), Bureau of Customs (BoC), and Land Transportation Office (LTO) to press for progress in addressing the smuggling of used vehicles and fuel through the Subic Freeport. During the dialogue, Philippine government officials informed the participants that the Supreme Court had ruled in October 2007 to uphold its February 2006 decision prohibiting the sale of second-hand vehicles outside the freeports. As a result of the decision, the SBMA has blocked the exit of some 2,900 used passenger vehicles from the Freeport into the Philippines customs territory.

13. (SBU) SBMA Administrator Armand Arreza also announced a six-month halt (until April 2008) on the issuance of permits for importing second-hand automobiles into the Freeport. During the halt, the SBMA, BoC, Department of Finance, and the Department of Trade and Industry will jointly audit all vehicles in the Freeport to gauge the extent of smuggling and collect unpaid taxes. Arreza said an audit of fuel importers has also started and the operations of two companies have been suspended thus far.

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14. (SBU) The group that visited Subic held a review meeting on November 21 to discuss accomplishments and next steps. The consensus was that the visit had been a significant success and had accomplished more than had been expected. They thought the high-profile visit of a large, united group, which included officials from the U.S., Japan, and South Korea, had been effective in spurring the Philippine Government to take more aggressive steps on the smuggling problem, and concluded that this approach should be adopted in future high-priority advocacy efforts. The participants noted that used-vehicle auction advertisements over the past month no longer include passenger cars. (Note: Philippine law still allows imports of certain second-hand special-purpose vehicles.)

15. (SBU) While commending recent government actions, the participants also agreed that it would be necessary to continue advocacy on the issue and to carefully review administrative processes to plug loopholes and coordinate enforcement in order to reach the ultimate goal of lasting, nationwide, effective enforcement. The diversion into the domestic market of tax-exempt fuel imported through Subic for delivery to government-designated, tax-exempt Philippine economic zones remains a pressing issue requiring government action.

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High-Level Meeting and Press Release in the Works

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16. (SBU) As an immediate follow-through to the Subic dialogue, the group agreed to request a joint meeting with the Secretaries of the Department of Trade and Industry, Department of Finance, Department of Energy, and the Department of Transportation and Communication,

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and the heads of the tax collection agencies and Land Transportation Office in order to ensure that the agencies expeditiously take the necessary steps to fully implement the October 2007 Supreme Court decision.

17. (SBU) The group also agreed to issue a press release on the November 8 Subic visit to commend recent GRP actions, inform the public of the impact of smuggling, and urge effective implementation of pertinent laws and processes. A press release is currently circulating for clearance and a high-level meeting with the government officials has been requested.

18. (SBU) Some vehicle importers continue to resist the Supreme Court decision prohibiting the sale of second-hand vehicles in the domestic market. On November 27, 41 registered vehicle importers issued a one-page appeal to President Gloria Arroyo in a number of leading newspapers and requested the release of the 2,900 vehicles being held in the Subic Freeport.

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Taking Advocacy on the Road: Cebu Next?

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18. (SBU) While the anti-smuggling group believes that Subic is currently the port of entry for 60% to 70% of the illicit vehicles and fuel entering the Philippines, second-hand vehicles and fuel are also smuggled through other ports. During the November 21 review meeting, participants supported a suggestion that the group replicate the Subic dialogue in other ports, specifically mentioning the Cebu port, and the Cagayan and Zamboanga freeports.

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Comment

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19. (SBU) For the companies, success will be measured by the improved sales of new vehicles and fuel products by legitimate dealers. Although the business sector has succeeded in spurring government action to curb smuggling in the Subic Freeport, further work will be needed to institutionalize reforms and sustain a more



vigorous nationwide anti-smuggling campaign. End Comment.

Kenney